

**EXECUTIVE SECRETARIAT**  
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Executive Secretary  
*17 DEC 84*  
Date



OFFICE OF THE SECRETARY OF THE TREASURY

WASHINGTON, D.C. 20220

Executive Registry

84 - 10026/2

December 14, 1984

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(With ~~Confidential~~ Attachment)

MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE  
THE SECRETARY OF DEFENSE  
THE SECRETARY OF AGRICULTURE  
THE SECRETARY OF COMMERCE  
THE SECRETARY OF TRANSPORTATION  
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
DIRECTOR OF CENTRAL INTELLIGENCE  
UNITED STATES TRADE REPRESENTATIVE  
ASSISTANT TO THE PRESIDENT FOR NATIONAL SECURITY AFFAIRS  
ASSISTANT TO THE PRESIDENT & DEPUTY TO THE CHIEF  
OF STAFF  
ASSISTANT TO THE PRESIDENT FOR CABINET AFFAIRS  
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS  
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT

SUBJECT: Senior Interdepartmental Group on  
International Economic Policy (SIG-IEP)

Attached is a report from the Interagency Group on Japan on unresolved issues relating to U.S.-Japan economic relations. This paper will serve as the basis for the SIG-IEP meeting scheduled for Tuesday, December 18, at 11 a.m. in the Roosevelt Room.

Christopher Hicks  
Executive Secretary and  
Executive Assistant to the Secretary

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## Unresolved Policy Issues

The IG on Japan has agreed on its recommendation on most economic issues for the visit of Prime Minister Nakasone on January 2. During the interagency discussions, three basic issues were not resolved. These outstanding issues are being forwarded to the SIG-IEP for resolution prior to the NSC final review of the position papers for the Nakasone visit.

### 1. Specific Sectors in MOSS Approach

Agreement has been reached that this new Market-Oriented Sector-Selective (MOSS) approach to negotiating full market access for imports in key markets in the Japanese economy needs to be "kicked off" by a joint commitment to free-market access by the Prime Minister and the President. However, there is disagreement on whether the Prime Minister/Presidential commitment should identify the specific sectors for initial negotiations.

Some members of the IG believe that Prime Minister Nakasone's personal commitment to free-market access in specific sectors is vital to the long-run success of our negotiations. A USTR-chaired working group identified four important "beachhead" sectors for initial negotiations: telecommunications -- including equipment and services; electronics -- computers, components, semiconductors, etc.; forest products -- from lumber to paper products; and medical equipment and pharmaceuticals.

Other members questioned the usefulness of indicating specific sectors at the Presidential level. They argued in part that we did not know enough about which sectors were potential candidates and which American industries would be supportive of our efforts.

### 2. MOSS Plus Target

Some members of the IG believe that, in addition to the MOSS approach, a supplemental overall target for the growth of manufactured imports should be included in the Nakasone commitment. The proposed target was a doubling of manufactured imports in 3 years. Some felt that any target should be realistic, attainable, and might call for commitment to substantial increases in Japanese manufactured goods imports. One view was that such a target should be set by the GOJ itself.

Other members of the IG argued against targets. They believed that there were no criteria for choosing appropriate targets other than "more." They stated that doubling of manufactured imports would be unattainable and therefore not believable. It was pointed out that the target was the equivalent of a \$100 billion increase in U.S. manufactured imports.

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It was further argued that numerical targets deviated significantly from the Administration's philosophy of free markets and might lead to efforts by other key trading partners to manage trade.

A possible compromise position would be a commitment by Nakasone to produce a MITI "vision" on the benefits of full market access for imports without reference to a quantitative target.

### 3. Role for Leverage

Most members of the IG agreed that leverage was an important element of either negotiating strategy, but a view was expressed that it was relevant only to the MOSS. But there was disagreement on whether or not the President should refer to leverage or retaliation in his discussions with Nakasone either obliquely or directly.

Some members of the working group favored a clear signal to Nakasone that we "carry a big stick" in order to "help" him sell his commitment to market access to his domestic constituencies. They wanted to indicate full commitment to successful negotiations by hinting at the "costs" of failure.

Others in the IG suggested that this may not "help" Nakasone and that the President should not hold out threats to Nakasone for fear of a nationalistic reaction. In this view, leverage should emerge over the course of negotiations, specifically and carefully tailored to the individual problems as they arise.

All three of these issues need to be resolved before final completion of the position papers for the Nakasone visit can proceed.

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